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2004 DEC -6 AM 11:01

T.R.A. DOCKET ROOM

December 2, 2004

Mr. Pat Miller, Chairman  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, TN 37243-0505

Re: Tennessee Regulatory Authority Docket No 04-00423  
Entergy Arkansas, Inc. Annual Interest Rate Paid on all  
Utility Service Customer Deposits for 2005

Dear Chairman Miller:

Attached is a copy of the Arkansas Public Service Commission (APSC) Order No. 3 in Docket No. 04-135-U issued December 2, 2004, ordering all jurisdictional utilities subject to the APSC to pay simple interest at the rate of 1.8% per annum during 2005 on all utility service customer deposits. It is our intention to also pay this rate for the Tennessee customer deposits.

The purpose of this letter is to file this revision to the customer deposit interest rate with the Tennessee Regulatory Authority for its acknowledgement and approval to allow implementation on January 1, 2005. An original and 13 copies of this letter and attachment are included for your use. A check in the amount of \$25.00 for the TRA filing fee is enclosed.

If you have any questions or need additional information, please do not hesitate to call me at (501) 377-5489.

Sincerely,

A handwritten signature in cursive script, appearing to read "Will Morgan".

Will Morgan, Manager  
Regulatory Affairs

WM/tj  
Attachment

DEC 2 1 48 PM '04

ARKANSAS PUBLIC SERVICE COMMISSION

FILED

IN THE MATTER OF THE ANNUAL )  
DETERMINATION OF THE INTEREST RATE )  
APPLICABLE TO UTILITY CUSTOMER DEPOSITS )

DOCKET NO 04-135-U  
ORDER NO 3

Appearances: Staff of the Arkansas Public Service Commission represented by Beverly H Jones, Attorney at Law, Little Rock, Arkansas 72201; Attorney General of the State of Arkansas represented by M. Shawn McMurray, Senior Assistant Attorney General, Little Rock, Arkansas 72201.

ORDER

Ark. Code Ann. §23-4-206 requires the Arkansas Public Service Commission (Commission) to determine, on an annual basis, and following notice and hearing, the interest rate to be paid by regulated public utilities on customer deposits for utility service, not to exceed ten percent (10%), and to issue an order no later than December 31st each year fixing such interest rate for the following year

By Order No 1 of this docket, issued October 12, 2004, this docket was established by the Commission for the purpose of considering and setting the year 2005 interest rate to be paid on customer deposits for utility service by all jurisdictional utility companies operating in Arkansas and subject to the Commission's regulatory authority

On November 4, 2004, Jo Ann Sterling, employed by the General Staff of the Arkansas Public Service Commission (Staff) as a Financial Analyst in the Financial Analysis Section, filed prepared testimony in this docket on behalf of the Staff, represented at the hearing by Staff Attorney, Beverly H Jones. In her testimony Ms Sterling recommends that utilities pay simple interest on customer deposits for the year 2005 at the rate of 1.8%.

Although Order No 1 invited all jurisdictional utilities to file rebuttal testimony in this docket in response to Staff's recommendation, no companies have elected to do so. Staff's recommendation of an interest rate for the year 2005 of 1.8% is therefore unopposed.

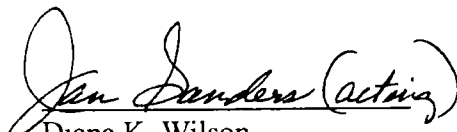
At the public hearing in this matter on December 2, 2004, no one appeared to object to Staff's proposed year 2005 interest rate of 1.8%.

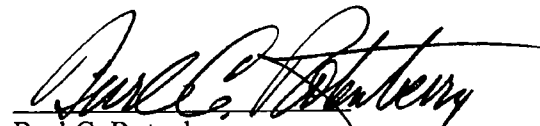
After considering all matters of record in this docket, I find that Staff's recommendation regarding the year 2005 interest rate to be paid on utility service customer deposits, as well as the methodology used to develop this recommendation, is reasonable and in the public interest. Accordingly, it is hereby ORDERED that all jurisdictional utilities subject to the regulatory authority of this Commission pay simple interest at the rate of 1.8% per annum during the year 2005 on all utility service customer deposits.

Following distribution of this order to all regulated utilities and other appropriate parties, the Secretary of the Commission is authorized and directed to close this docket.

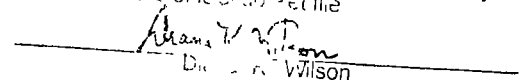
BY ORDER OF THE ADMINISTRATIVE LAW JUDGE PURSUANT TO DELEGATION

This 2nd day of December, 2004.

  
Diana K. Wilson  
Secretary of the Commission

  
Burl C. Rotenberry  
Administrative Law Judge

I hereby certify that the following order issued by the Arkansas Public Service Commission has been served on all parties of record and is being distributed by the U.S. mail with postage prepaid to the address of each party as indicated in the official docket file.

  
Diana K. Wilson  
Secretary of the Commission  
to 12-2-04 JF

ARK P

CLERK

AM.

Nov 4 10 17 AM '04

FILED

BEFORE THE  
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE ANNUAL )  
DETERMINATION OF THE INTEREST )  
RATE APPLICABLE TO UTILITY )  
CUSTOMER DEPOSITS )

DOCKET NO. 04-135-U

PREPARED TESTIMONY

OF

JO ANN STERLING  
FINANCIAL ANALYST

FINANCIAL ANALYSIS SECTION

ON BEHALF OF THE  
ARKANSAS PUBLIC SERVICE COMMISSION STAFF

3

NOVEMBER 4, 2004

**QUALIFICATIONS**

1   **Q.   Please state your name and business address.**

2   A   My name is Jo Ann Sterling. My business address is Arkansas Public Service  
3       Commission (Commission or APSC), 1000 Center Street, Little Rock, Arkansas, 72201.

4   **Q.   Please describe your present position with the Arkansas Public Service Commission**  
5       **General Staff (Staff).**

6   A.   I am employed by the Staff as a Financial Analyst in the Financial Analysis Section. In  
7       that capacity, I perform economic and financial analysis, including determining the  
8       appropriate relative relationship between debt and equity capital and calculating the cost  
9       of debt, preferred stock and common equity as components for determining the overall  
10      required rate of return for jurisdictional utilities. Additionally, I evaluate proposed debt  
11      and equity issuances, mergers, and acquisitions pertaining to the Arkansas jurisdiction,  
12      and monitor current economic and market trends and their impact on the cost of capital.

13   **Q.   Please describe your education, work experience, and qualifications.**

14   A.   I graduated from Northwestern University in Evanston, Illinois in August 1975 with a  
15      Bachelor of Arts Degree in Economics. I have over 22 years experience assessing the  
16      credit risks of a broad range of firms, both domestic and international. I have held the  
17      positions of Assistant Credit Manager, Credit Manager, and Export Administrator with a  
18      major fiberglass manufacturer. In those capacities, I was responsible for domestic and  
19      international credit investigations and the assignment of lines of credit which involved  
20      financial statement and credit report analysis. I was also responsible for billing and

CUSTOMER DEPOSIT INTEREST RATE  
DOCKET NO. 04-135-U  
PREPARED TESTIMONY OF JO ANN STERLING -2-

1 collections including letter of credit and export document preparation and international  
2 collections. I was also instrumental in implementing the billing, credit and accounts  
3 receivable functions of the firm's new integrated computer system.

4 **PURPOSE**

5 **Q. What is the purpose of your testimony in this proceeding?**

6 A The purpose of my testimony is to make a recommendation regarding the appropriate  
7 2005 customer deposit interest rate, as directed by Order No. 1 in this Docket, dated  
8 October 12, 2004. This rate will apply to all jurisdictional utility companies operating in  
9 Arkansas and subject to the Commission's authority.

10 **Q. Are you recommending a change in the 1.4% rate last authorized by this**  
11 **Commission?**

12 A Yes. I am recommending a customer deposit interest rate of 1.8%.

13 **METHODOLOGY**

14 **Q. What factors, including the appropriate statute, did you consider in arriving at your**  
15 **recommendation?**

16 A. Ark. Code Ann. §23-4-206 (2002 Replacement) requires the Commission to determine  
17 annually the interest rate to be paid on customer deposits for utility service. The  
18 provision states that the annual rate of interest set by the Commission for any year shall  
19 not be more than ten percent (10%).

20 In accordance with Rule 4.01 of the Commission's *General Service Rules*, a utility  
21 customer can be required to deposit funds with the utility for the privilege of obtaining  
22 service. While the utility company has the discretion to request this deposit, the utility

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DOCKET NO 04-135-U  
PREPARED TESTIMONY OF JO ANN STERLING -3-

1 customer does not have the option of whether to comply or not, which makes the  
2 customer a forced investor. Given these conditions, the utility customer is not free to (1)  
3 decide whether or not to make the investment (deposit) in the utility or (2) select an  
4 alternative investment opportunity that might produce a higher rate of return. Therefore,  
5 the utility customer should be allowed a return on investment that would correspond to  
6 the return from a comparable investment. Rule 4.05 (A) of the Commission's *General*  
7 *Service Rules* mandates the payment of interest annually on utility deposits.

8 **Q. What characteristics of the customer deposit did you consider relevant for**  
9 **identifying a comparable investment?**

10 A. First, I evaluated the customer deposit from the perspective of an investment instrument.  
11 Since deposits in a utility are a relatively secure investment, a customer can be assured of  
12 principal repayment if the customer meets the requirements of Rule 4.06 of the  
13 Commission's *General Service Rules*. Thus, the principal amount of the deposit has a  
14 minimal to non-existent default risk characteristic. Accordingly, a comparable  
15 investment instrument would be one with little default risk.

16 Another characteristic of the deposit is its maturity, the length of the time the  
17 utility has use of the funds before remitting them back to the customer. Rule 4.06 (A) of  
18 the Commission's *General Service Rules* requires a utility to promptly refund a  
19 residential customer deposit if the customer has "paid all bills by the due date for the last  
20 12 months". Therefore, consistent with Rule 4.06 (A), a comparable investment  
21 instrument should have a term of at least one year.

CUSTOMER DEPOSIT INTEREST RATE  
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PREPARED TESTIMONY OF JO ANN STERLING -4-

1   **Q.    Given these considerations, which investment instrument would best serve as a**  
2       **reasonable proxy for estimating the appropriate return on utility customer**  
3       **deposits?**

4   **A**    Considering principal risk, maturity, and the investment alternatives available to  
5       Arkansas ratepayers, utility customer deposits are most comparable to certificates of  
6       deposit. Accordingly, I selected a certificate of deposit with a principal amount of \$500  
7       (which is generally the minimum balance) and a maturity of one-year to serve as a proxy  
8       for customer deposits.

9   **Q.    Has this approach to determining the annual customer deposit interest rate been**  
10       **previously accepted by this Commission?**

11   **A**    Yes. The Commission has accepted this methodology since 1985 when it first began  
12       establishing customer deposit interest rates.

13                               **RECOMMENDATION**

14   **Q.    Did you conduct a survey of financial institutions in Arkansas concerning the**  
15       **interest rate paid on a \$500, one-year certificate of deposit?**

16   **A**    Yes. On October 28, 2004, I conducted a telephone survey of six financial institutions  
17       located throughout Arkansas for \$500, one-year certificate of deposit interest rates. The  
18       average rate being paid by these six financial institutions was 1.8%. Attachment JS-1  
19       presents by institution the one-year certificate of deposit interest rates rounded to one  
20       decimal place.



CUSTOMER DEPOSIT INTEREST RATE  
DOCKET NO 04-135-U  
PREPARED TESTIMONY OF JO ANN STERLING -5-

1   **Q.    What is your recommendation to this Commission regarding the customer deposit**  
2           **interest rate to be paid by utility companies beginning January 1, 2005 and ending**  
3           **December 31, 2005?**

4   **A.    I am recommending that the Commission require all jurisdictional utilities to pay simple**  
5           **interest at the rate of 1.8%.**

6   **Q.    Does this conclude your testimony at this time?**

7   **A     Yes, it does.**

**\$500  
ONE-YEAR  
CERTIFICATE OF DEPOSIT INTEREST RATES  
BY  
FINANCIAL INSTITUTION**

<b>FINANCIAL INSTITUTIONS</b>	<b>RATE</b>
Bank of Fayetteville	1.6
One Banc	1.6
Community Bank of Cabot	1.7
Pine Bluff National Bank	1.8
Liberty Bank of Jonesboro	2.0
Farmer's Bank & Trust in Camden	2.0
<b>AVERAGE</b>	<b>1.8</b>

Source.

Rates were compiled from a telephone survey of the financial institutions conducted October 28, 2004.

**CERTIFICATE OF SERVICE**

I hereby certify that a copy of the foregoing has been served on all parties of record by forwarding the same by first class mail, postage prepaid, this 4th day of November, 2004.

Beverly H. Jones